



JOHN NAIMO
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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February 23, 2015

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

FROM: John Naimo 
Auditor-Controller

SUBJECT: **CHILD CARE RESOURCE CENTER – A DEPARTMENT OF PUBLIC
SOCIAL SERVICES CALWORKS STAGE ONE CHILD CARE
SERVICES PROGRAM PROVIDER – CONTRACT COMPLIANCE
REVIEW**

We completed a contract compliance review of Child Care Resource Center (CCRC or Agency), which covered a sample of transactions from Fiscal Years (FY) 2012-13 and 2013-14. The Department of Public Social Services (DPSS) contracts with CCRC, a non-profit organization, to operate the CalWORKs Stage One Child Care Services (Stage One) Program, which helps families access immediate, quality, and affordable child care as they move through their Welfare-to-Work activities.

The purpose of our review was to determine whether CCRC appropriately accounted for and spent Stage One Program funds to provide the services outlined in their County contract. We also evaluated the Agency's accounting records, internal controls, and compliance with their contract and other applicable guidelines.

DPSS paid CCRC a fixed monthly fee of \$39,333, and a negotiated monthly rate of \$160 per participant to fund Stage One Program operating costs. The contract requires the Agency to return or reinvest any unspent revenue. In addition, once a participant chooses a child care provider, CCRC develops a rate agreement, and pays the child care provider directly. DPSS reimburses CCRC for these costs at the rates specified in the contract. The rates vary based on the needs of the participant. DPSS paid CCRC approximately \$33 million during FYs 2012-13 and 2013-14. CCRC provides services to residents of the First, Third, Fourth, and Fifth Supervisorial Districts.

Results of Review

CCRC provided services to eligible participants and child care providers, recorded and deposited DPSS payments timely, and Agency staff had the required qualifications. However, the Agency did not always comply with all of their County contract requirements. Specifically, CCRC:

- Billed the Stage One Program \$37,137 in rent, utilities, and maintenance expenditures for two facilities that were not used for the Stage One Program.

CCRC's attached response indicates that they agree to repay DPSS for the unallowable facility expenditures.

- Inappropriately allocated \$34,010 in payroll and non-payroll expenditures to the Stage One Program based on unallowable or unsupported methods.

CCRC's attached response indicates that they agree to review the expenditures charged to the Stage One Program during FY 2013-14 in the areas where there are questioned costs. CCRC did not agree to reallocate all expenditures charged to the Stage One Program during the contract term because the Agency indicated that this would take a significant amount of staff's time and effort. However, CCRC's management acknowledged that they used the same methodology to allocate other expenditures to the Stage One Program during the contract term. Therefore, CCRC will need to reallocate all expenditures charged to the Stage One Program during the contract term, provide DPSS with supporting documentation, and repay any overbilled amounts.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with CCRC and DPSS in December 2014. CCRC's attached response indicates general agreement with our findings and recommendations. DPSS will work with CCRC to ensure that our recommendations are implemented.

We thank CCRC management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:DC:AA:pn

Attachments

c: Sachi A. Hamai, Interim Chief Executive Officer
Sheryl L. Spiller, Director, DPSS
Edward Hill, Esq., Board Chair, CCRC
Michael Olenick, President and Chief Executive Officer, CCRC
Public Information Office
Audit Committee

**CHILD CARE RESOURCE CENTER
CALWORKS STAGE ONE CHILD CARE SERVICES PROGRAM
CONTRACT COMPLIANCE REVIEW
FISCAL YEARS 2012-13 AND 2013-14**

ELIGIBILITY

Objective

Determine whether Child Care Resource Center (CCRC or Agency) provided services to individuals who met the CalWORKs Stage One Child Care Services (Stage One) Program eligibility requirements, and whether the child care providers were eligible to provide Stage One Program services.

Verification

We reviewed the case files for 30 (2%) of the 1,435 participants who received services, and 30 (2%) of the 1,202 child care providers who provided child care during May 2014 for documentation to confirm the participants' eligibility to receive and the providers' eligibility to provide Stage One Program services.

Results

CCRC had documentation to support all 30 participants' eligibility to receive and all 30 providers' eligibility to provide Stage One Program services.

Recommendation

None.

PROGRAM SERVICES

Objective

Determine whether CCRC provided the services required by their County contract and Stage One Program guidelines, and whether the Program participants and child care providers received the billed services.

Verification

We reviewed the case files for 30 (2%) of the 1,435 participants who received services, and 30 (2%) of the 1,202 child care providers who provided child care during May 2014.

Results

The case files for the 30 participants and 30 child care providers reviewed had documentation to support that CCRC provided services in accordance with their County contract.

Recommendation

None.

STAFFING QUALIFICATIONS**Objective**

Determine whether CCRC's staff had the qualifications required by their County contract.

Verification

We reviewed the personnel files for ten (9%) of the 107 CCRC staff who worked on the Stage One Program.

Results

CCRC's ten staff reviewed had the qualifications required by their County contract.

Recommendation

None.

CASH/REVENUE**Objective**

Determine whether CCRC properly recorded revenue in their financial records, deposited cash receipts into their bank account timely, and that bank account reconciliations were reviewed and approved by Agency management.

Verification

We interviewed CCRC's management, and reviewed their financial records and March 2014 bank account reconciliations.

Results

CCRC properly recorded revenue in their financial records, deposited Department of Public Social Services (DPSS) payments into their bank account timely, and Agency management reviewed and approved bank account reconciliations.

Recommendation

None.

EXPENDITURES/COST ALLOCATION PLAN**Objective**

Determine whether expenditures charged to the Stage One Program were allowable under their County contract, properly documented, and accurately billed. In addition, determine whether the Agency prepared their Cost Allocation Plan (Plan) in compliance with their County contract, and used the Plan to allocate shared expenditures appropriately.

Verification

We interviewed CCRC's personnel, and reviewed their Plan, and financial records for ten direct provider payments, totaling \$9,007, and 12 non-payroll expenditures, totaling \$70,918, that the Agency charged to the Stage One Program during Fiscal Year (FY) 2013-14.

Results

CCRC prepared their Plan in compliance with their County contract, and appropriately charged \$9,007 (100%) in direct provider payments to the Stage One Program. However, CCRC inappropriately charged \$42,169 (59%) of the \$70,918 in non-payroll expenditures reviewed to the Stage One Program. We also expanded our sample, and noted an additional \$27,087 in unallowable facility expenditures. Specifically, CCRC:

- Billed the Stage One Program \$37,137 in rent, utilities, and maintenance expenditures for two facilities that were not used for the Stage One Program.
- Inappropriately allocated \$32,119 to the Stage One Program for shared expenditures based on unallowable or unsupported methods.

Recommendations**Child Care Resource Center management:**

1. **Reallocate all expenditures charged to the Stage One Program during the contract term, provide the Department of Public Social Services with supporting documentation, and repay any overbilled amounts.**
2. **Ensure that all expenditures charged to the Stage One Program are allowable, properly documented, and accurately billed.**
3. **Repay the Department of Public Social Services \$37,137.**

PAYROLL AND PERSONNEL**Objective**

Determine whether CCRC charged payroll costs to the Stage One Program appropriately, and maintained personnel files as required.

Verification

We traced the payroll costs for ten employees, totaling \$11,847 for May 2014, to the Agency's payroll records and time reports. We also interviewed staff, and reviewed personnel files for ten CCRC Stage One Program staff.

Results

CCRC maintained personnel files as required. However, CCRC inappropriately allocated \$1,891 (16%) of the \$11,847 in payroll costs reviewed to the Stage One Program. Specifically, CCRC inappropriately allocated the payroll costs for three employees who worked on County and non-County Programs based on estimates, projections, and outdated information, instead of actual conditions as required.

Recommendation

Refer to Recommendations 1 and 2.

CLOSE-OUT REVIEW**Objective**

Determine whether CCRC had any unspent revenue for the Stage One Program for FY 2012-13.

Verification

We traced the total revenues and expenditures from CCRC's FY 2012-13 close-out report to the Agency's accounting records, and to DPSS' payment records.

Results

CCRC's accounting records and DPSS' payment records indicated that they had \$56,239 in unspent revenue for FY 2012-13. The Agency submitted a disposition plan to DPSS for approval as required. However, CCRC needs to revise their accounting records based on our recommendations above, provide DPSS with a revised close-out report for FY 2012-13, and work with DPSS to return or reinvest any unspent revenue.

Recommendation

- 4. Child Care Resource Center management revise their accounting records based on our recommendations above, provide the Department of Public Social Services with a revised close-out report for Fiscal Year 2012-13, and work with the Department of Public Social Services to return or reinvest any unspent revenue.**



January 15, 2015

Mr. John Naimo, Auditor-Controller
County of Los Angeles
Department of Auditor-Controller
Countywide Contract Monitoring Division
350 South Figueroa Street, 8th Floor
Los Angeles, CA 90071

RE: Response to Auditor-Controller's (AC) December 17, 2014 Report on Results of Audit of
Child Care Resource Center's (CCRC) Stage 1 Contract with DPSS Covering Fiscal Years
2012-13 and 2013-14

Dear Mr. Naimo:

We are pleased to learn that based upon Auditor-Controller's contract compliance review of CCRC covering two fiscal years (FY), in the areas of eligibility, program services, staffing/qualifications and cash/revenue, we are in compliance with all requirements.

We would like to take this opportunity to comment on our overall experience with the review/audit process. We made it a priority to respond to AC's request for information and questions and found that it required a tremendous amount of staff's time. In addition, staff continued to work on the review/audit items well past AC's last day on site including addressing new audit questions posed by AC which affected staff's day-to-day duties.

The following table indicates CCRC's response to each of the AC's recommendations.

AC'S RECOMMENDATION		CCRC'S RESPONSE
AUDIT AREA: EXPENDITURES/COST ALLOCATION PLAN		
1.	Reallocate all expenditures charged to the Stage One Program during the contract term, provide the Department of Public Social Services with supporting documentation, and repay any overbilled amounts.	CCRC will review expenditures charged to the Stage One Program and provide DPSS with supporting documentation as necessary and repay any overbilled amounts. This work will take an enormous amount of staff's time & effort. As such, since the questioned costs pertain to FY 2013-14, we will limit the review to this FY and to the areas where there are questioned costs.

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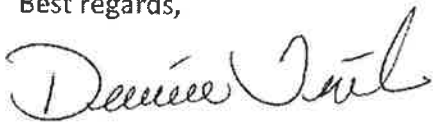
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AC'S RECOMMENDATION		CCRC'S RESPONSE
2.	Ensure that all expenditures charged to the Stage One Program are allowable, properly documented, and accurately billed.	In the process of reviewing expenditures charged to the Stage One Program (procedure described above), we will ensure that these expenditures are allowable, properly documented and accurately billed.
3.	Repay the Department of Public Social Services \$37,137.	We agree to remit \$37,137 upon receiving invoice from DPSS. This was an isolated incident that gave rise to the one-time error of incorrectly allocating cost to the Stage One Program.
AUDIT AREA: PAYROLL AND PERSONNEL		
4.	Reallocate all expenditures charged to the Stage One Program during the contract term, provide the Department of Public Social Services with supporting documentation, and repay any overbilled amounts.	CCRC will review expenditures charged to the Stage One Program and provide DPSS with supporting documentation as necessary and repay any overbilled amounts. This work will take an enormous amount of staff's time & effort. As such, since the questioned costs pertain to FY 2013-14 and the support for three staff, we will limit the work to this FY and to the methodology that supported the allocation of those staff.
5.	Ensure that all expenditures charged to the Stage One Program are allowable, properly documented, and accurately billed.	In the process of reviewing expenditures charged to the Stage One Program (procedure described above), we will ensure that these expenditures are allowable, properly documented and accurately billed.
AUDIT AREA: CLOSE OUT REVIEW		
6.	Child Care Resource Center management revise their accounting records based on our recommendations above, provide the Department of Public Social Services with a revised close-out report for Fiscal Year 2012-13, and work with the Department of Public Social Services to return or reinvest any unspent revenue.	CCRC will revise our accounting records as a result of completion of work where necessary as identified above. We will then provide DPSS with a revised close-out report and work with them to return or reinvest any unspent revenue. This will be completed by February 15, 2015.

In the current FY 2014-15, we are completing a review of the support for our allocation methodologies to ensure that the information is up to date and represent actual conditions. This will ensure that costs allocated to the Stage 1 contract represent the benefits to the program.

If you have any questions or would like additional information, please feel free to contact me at 818-717-1020 or dtrinh@ccrcca.org. We look forward to hearing from you.

Best regards,

A handwritten signature in black ink, appearing to read "Denise Trinh". The signature is fluid and cursive, with the first name "Denise" written in a larger, more prominent script than the last name "Trinh".

Denise Trinh
CFO

cc: Michael Olenick, President & CEO, CCRC